

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT COMMITTEE
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 20, 2017

4:10 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Michael Bilbrey, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. John Chiang, represented by Ms. Jeree Glasser-Hedrick

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Theresa Taylor

BOARD MEMBERS:

Mr. Henry Jones, Vice President

Mr. J.J. Jelincic

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Carol Takehara, Committee Secretary

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1 P R O C E E D I N G S

2 CHAIRPERSON BILBREY: I think we threw them off
3 on the -- there we go. All right. Calling the
4 Performance, Compensation and Talent Management Committee
5 to order.

6 Roll call, please.

7 COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

8 CHAIRPERSON BILBREY: Here.

9 COMMITTEE SECRETARY TAKEHARA: Jeree

10 Glasser-Hedrick --

11 ACTING COMMITTEE MEMBER GLASSER-HEDRICK: Here.

12 COMMITTEE SECRETARY TAKEHARA: -- for John

13 Chiang?

14 Richard Costigan?

15 VICE CHAIRPERSON COSTIGAN: Here.

16 COMMITTEE SECRETARY TAKEHARA: Richard Gillihan?

17 COMMITTEE MEMBER GILLIHAN: Here.

18 COMMITTEE SECRETARY TAKEHARA: Dana Hollinger?

19 COMMITTEE MEMBER HOLLINGER: Here.

20 COMMITTEE SECRETARY TAKEHARA: Ron Lind?

21 COMMITTEE MEMBER LIND: Here.

22 COMMITTEE SECRETARY TAKEHARA: Theresa Taylor?

23 COMMITTEE MEMBER TAYLOR: Here.

24 COMMITTEE SECRETARY TAKEHARA: Thank you.

25 CHAIRPERSON BILBREY: All right. Next is

1 Executive Report, Ms. Campbell.

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good
3 afternoon members of the Performance, Compensation and
4 Talent Management Committee. Tina Campbell, CalPERS team
5 member on behalf of Doug Hoffner. Before you today are
6 two action items, approval of CEO and CIO's 2017-18
7 performance plans, and results of compensation research
8 conducted for the biennial salary survey with options for
9 the Committee's consideration.

10 The information items -- the information item
11 provides an overview of the '16-'17 investment management
12 plans and how they have been modeled after the Board's
13 direction provided as part of the compensation program
14 review last August.

15 At the Committee's next open session meeting in
16 September, staff will present results of '16-'17
17 performance metrics, which were adopted by the Board for
18 inclusion in the CEO and CIO's incentive plans. In
19 addition, a closed session meeting will be held in
20 September to conduct the annual performance reviews of the
21 CEO and CIO, a summary of appraisal outcomes for all other
22 covered positions will also be provided.

23 In advance of th meeting, you will receive an
24 electronic survey to provide comments and feedback on the
25 CEO's performance and survey results will be compiled for

1 discussion in the September closed session meeting.

2 Thank you, Mr. Chair, this concludes my report.

3 CHAIRPERSON BILBREY: Thank you.

4 Next, we move to consent items, approval of the
5 minutes.

6 VICE CHAIRPERSON COSTIGAN: Move the minutes.

7 COMMITTEE MEMBER TAYLOR: Second.

8 CHAIRPERSON BILBREY: Moved by Mr. Costigan,
9 second by Ms. Taylor.

10 Any discussion on the minutes.

11 Seeing none.

12 All those in favor say aye?

13 (Ayes.)

14 CHAIRPERSON BILBREY: Opposed?

15 Motion carries.

16 Consent items. I've had no one ask to take any
17 items on the consent off the calendar, which moves us to
18 Item 5, 2017-18 performance plan of the Chief Executive
19 Officer and Chief Investment Officer.

20 Before we start that, Mr. Jelincic.

21 BOARD MEMBER JELINCIC: Yeah. Rob has decreed
22 that I can't participate in five and six, five because of
23 the AG's opinion, and the fact that it deals with the CEO
24 and the CIO. Six, because staff combined classes that I
25 can participate in and classes I can't, so I won't be

1 participating in that.

2 But one of the points I do want to make is
3 somebody decided that when I opened my Diligent Book,
4 it's -- to 5 and 6, it says, "Document hidden. You are
5 seeing this message because the documents contained in
6 this section have limited distribution. Please navigate
7 to the next available page".

8 Apparently, somebody didn't realize that that's a
9 public document, and I can get it simply by going to the
10 website. So it is clearly restricted only to me. And I
11 have raised this issue in the past, have been told it
12 would not happen again, but it has. And so this time I'm
13 doing it publicly so that it won't happen again.

14 And I want to acknowledge that I'm glad I didn't
15 have to file a public records request to get the
16 documents, because if I had, I'd get beat up by some
17 members of the Board.

18 So anyhow, I will be leaving and not
19 participating. But that should not happen that a Board
20 member cannot get a public document.

21 If it's on the website, it should show up on my
22 iPad. So I thank you.

23 CHAIRPERSON BILBREY: Duly noted.

24 Ms. Frost.

25 CHIEF EXECUTIVE OFFICER FROST: Yeah. Thank you,

1 Mr. Chair. Mr. Jelincic brought this up with me in our
2 weekly check in last week. And so I'm working with the
3 Board Services Unit on making sure that Diligent is set up
4 that it can separate closed session items from open
5 session items. And once we're able to work through that,
6 there is no problem with giving you open session documents
7 through Diligent.

8 BOARD MEMBER JELINCIC: I will point out that in
9 terms of the closed session item, if you look at my iPad,
10 it doesn't even indicate that there was a closed session,
11 so clearly, they can separate the two.

12 CHIEF EXECUTIVE OFFICER FROST: We are working
13 through that with the understanding that you would have
14 access to open session items in Diligent and not have to
15 go to the website.

16 BOARD MEMBER JELINCIC: And, I mean, especially
17 if it's out on the web, because gess what, I went and read
18 it.

19 CHAIRPERSON BILBREY: All right. Thank you.

20 Ms. Campbell.

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank
22 you.

23 Tina Campbell, CalPERS team member. Agenda Item
24 5 is an action item. This item presents for approval the
25 2017-18 incentive plans for the Chief Executive Officer

1 and Chief Investment Officer.

2 As discussed earlier in closed session, the plans
3 of the CEO and CIO continue to contain the performance
4 metrics and total fund investment performance measures
5 adopted by the Board last year. A measure focused on key
6 leadership priorities is included in each plan. And the
7 CIO's plan also contains a measure related to
8 organizational priorities in the business plan and
9 Investment Office Roadmap.

10 Board approval of the CEO and CIO plans is
11 recommended. This concludes my report on the item. I'm
12 Happy to answer any questions that you may have.

13 CHAIRPERSON BILBREY: What's the pleasure of the
14 Committee?

15 COMMITTEE MEMBER LIND: Move approval.

16 VICE CHAIRPERSON COSTIGAN: Second.

17 CHAIRPERSON BILBREY: Moved by Lind, seconded by
18 Costigan.

19 Any discussion on the motion?

20 Seeing none.

21 All those in favor say aye?

22 (Ayes.)

23 CHAIRPERSON BILBREY: Opposed?

24 Motion carries.

25 Thank you. Next Item 6, Biennial Salary Survey.

1 Ms. Campbell.

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina
3 Campbell, CalPERS team member.

4 Agenda Item 6 is an action item as well. This
5 item presents compensation data and possible base salary
6 increases options for the Committee's consideration. As a
7 result of the Committee's direction in February to conduct
8 a biennial salary survey, existing data sets from two
9 surveys and additional compensation data gathered
10 internally were utilized to inform the options proposed in
11 the this item.

12 The compensation data analyzed included the
13 results of the separate 2015 McLagan compensation study
14 and an externally-conducted in which CalPERS participated
15 in December 2016 with 58 other public pension funds.

16 In addition, public sector salary data was
17 gathered internally from reciprocal agencies for positions
18 similar to those covered under the Board's compensation
19 setting authority. The reciprocal agency data includes
20 information from 27 city and county agencies, in addition
21 to departments known to share talent pools with CalPERS
22 SMUD, the State Controller -- I'm sorry, the SCIF, the
23 State Compensation Insurance Fund, CalSTRS, and Covered
24 California. A summary of findings from the three data
25 sets is included in your packets in attachment 1.

1 In addition, based upon Committee direction to
2 bring back compensation data relative to some of CalPERS
3 career executive assignment positions, information was
4 also collected from the reciprocal agencies on positions
5 similar to the three -- to three of our CEA positions.

6 That information is included for the Committee's
7 information in the last two pages of attachment one.
8 Although, these positions are not covered under the
9 Board's compensation setting authority, and will not be
10 impact by any action taken today.

11 In 2015, when the last salary survey of private
12 and public sector data, as described in the compensation
13 policy, was conducted. McLagan's findings indicated that
14 CalPERS salary ranges were positioned at the 25th
15 percentile of the data at the minimum of the ranges, and
16 at the 75th percentile at the maximum.

17 In addition, CalPERS total cash compensation
18 resided at or below the 25th percentile of the data, which
19 is historically consistent with the approximate
20 positioning of total compensation for the program. At the
21 time of the 2015 survey results were presented, there were
22 no significant changes made aside from altering the
23 maximum of a few ranges in which there were incumbents
24 with salaries in the 4th quartile of the range.

25 Based upon the fact that the salary ranges are

1 largely the same as they were at the time of the 2015
2 survey, the current positioning of the salary ranges and
3 total compensation in relation to the comparator group
4 remains similar as well.

5 This has been confirmed by Grant Thornton's own
6 market research data and is noted in the opinion letter
7 included as attachment four.

8 Action taken on either of the options outlined
9 today would be made effective July 1st, 2017. And I want
10 to note that any increases to the existing salary ranges
11 will not result in an automatic pay increase to staff.

12 Any future base pay increases will be earned as a
13 result of the annual appraisal process. Before I go over
14 the proposed options for the Committee's consideration,
15 I'd like to direct you to -- your attention to attachment
16 2 which will be useful as a reference.

17 It displays where all the incumbents are
18 positioned in the four quartiles of each salary range, and
19 in particular quartile four is what we'll be focusing on
20 today.

21 One correction to note, is the Chief Actuary's
22 salary should be listed as in the first quartile not the
23 third.

24 There are two proposed options before the
25 Committee for consideration today. Option 1, for

1 classifications with one or more incumbents currently
2 compensated at the maximum of the range would be to raise
3 the maximum of the range by four percent. This option
4 would allow room in the range for these incumbents to
5 receive an earned base pay increase received through the
6 annual appraisal process, and would impact potentially up
7 to four incumbents.

8 Option 2, for classifications which have one or
9 more incumbents in the fourth quartile, to raise the
10 maximum of the range by five percent. This option would
11 also provide room in salary range for incumbents to
12 receive full base pay increase earned through the annual
13 appraisal process, and would potentially impact up to 14
14 incumbents.

15 Grant Thornton, the Board's executive
16 compensation consultant, has reviewed these proposed
17 options for salary range revisions and the compensation
18 data presented in this item. The review and compensation
19 of this information to Grant Thornton's market data
20 resulted in the opinion letter, which is included in
21 attachment 4, as I mentioned previously.

22 Any changes made to salary ranges as a result of
23 this item will be reflected in the compensation program
24 policy. This concludes my report on this item. I'm happy
25 to answer any questions. In addition, Mr. Eliopoulos and

1 Mr. Tollette are available to answer any questions or
2 provide additional context.

3 CHAIRPERSON BILBREY: Thank you.

4 So I just wanted to reiterate that, first,
5 there's these two options, but there's also technically a
6 third option, which the Committee chooses to do nothing.

7 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:
8 Absolutely.

9 CHAIRPERSON BILBREY: So we could do these two or
10 do nothing at all. Second, this is a framework to put in
11 place, but this is not a salary increase relative to the
12 action we take today. That will not take place until
13 September, when we go through the evaluation process of
14 the performance plans and make our determinations at that
15 time whether or not to even go -- move forward with
16 anything.

17 So today is only putting a framework in place for
18 those currently in place for those who are here, or in the
19 future for those who would have the positions.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That is
21 correct.

22 CHAIRPERSON BILBREY: With that, Mr. Costigan.

23 VICE CHAIRPERSON COSTIGAN: Thank you, Mr.
24 Bilbrey. Just a couple observations.

25 Ms. Campbell, first of all, I appreciate you

1 doing this in really thank the HR Department for getting
2 this information and looking at some of the other folks
3 that we compare with. I would still like to have the
4 University of California. I don't see them there.

5 So just a couple of things. First, I want to
6 acknowledge both Ted, Wylie and their staff and recognize
7 that unfortunately what the report shows again is that we
8 don't pay enough, that we aren't setting aside the
9 resources.

10 And this is an interesting position we find
11 ourselves in. There is enormous pressure to bring more
12 in-house, demand higher returns, really ask the staff to
13 do more, but we haven't necessarily moved the salaries in
14 the same direction.

15 And I think on one hand, what this report is
16 good, is we're never going to compete with the Goldman
17 Sachs and the Apollos of the world and we just have to
18 recognize that. But my frustration -- and I know that Mr.
19 Gillihan may address this, but I'll look to CalHR a little
20 bit is, it is Covered California. You know, how are we
21 competing when we lose our health care staff, how are we
22 losing with CalSTRS when I understand that, as a sister
23 agency, they're paying more?

24 I'm not going to pick on the CIO of UC, but I am
25 still somewhat concerned - I could use a strong word, but

1 concerned - that the compensation for the CEO is almost 40
2 percent higher than our CIO and yet their fund is
3 two-thirds smaller. And I will be taking up with the
4 incoming chair of the Regents, who's actually a partner of
5 mine, we've been talking about these disparities. Because
6 even in looking at the UC website, one of the difficulties
7 we run into is their salary structure is commiserate[sic]
8 with experience.

9 Well, what does that exactly mean?

10 I mean, there is no salary bands. The other
11 thing is UC employees are not subject to PEPRA. That was
12 one of the issues where they're on the outside. So even
13 from a retirement structure, those are -- so as we try to
14 get to these apples to apples, it's a little -- and I know
15 we're not going to be taking up pay today.

16 But again, I want to give credit to Mr. Bilbrey,
17 and to Ms. Mathur last year, working towards this to again
18 to address it, because we have got to find it. You can't
19 demand that we ask the staff to do more and bring more
20 in-house without finding an ability to pay more. And I
21 don't know what the answer to that, because again at the
22 end of the day, these are civil service positions.

23 But it is very disheartening to see us in the
24 lowest quartile. I wouldn't expect to see us in the top
25 quartile just as a State agency. We're never going to get

1 there, but to see that we have the majority of the folks
2 in the Investment Manager and the Associate Manager --
3 well, a significant number, so one-fourth of the IMs in
4 the lowest, and almost 45 percent in quadrants one or two
5 is something, I know, Mr. Chair, that you're going to look
6 forward to addressing.

7 So thank you.

8 Thank you.

9 CHAIRPERSON BILBREY: Thank you.

10 Mr. Gillihan.

11 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

12 I just wanted to ask Ms. Campbell a question. When -- for
13 the positions that the Board sets the salary for, when the
14 State extends a general salary increase to excluded
15 employees, non-represented employees, does the system
16 automatically apply that to this group of individuals as
17 well?

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It does
19 not. The Board would have to take that action.

20 COMMITTEE MEMBER GILLIHAN: Does the system
21 extend their salary range as a result of the State doing a
22 general salary increase?

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Not
24 automatically.

25 COMMITTEE MEMBER GILLIHAN: Okay. So there's no

1 linkage between what happens with these CalPERS positions
2 and what we do in the broader State workforce?

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That is
4 correct.

5 COMMITTEE MEMBER GILLIHAN: Okay. Thank you.

6 CHAIRPERSON BILBREY: Ms. Taylor.

7 COMMITTEE MEMBER TAYLOR: So on top of what Mr.
8 Gillihan was asking, is there -- all of these have top
9 ranges, right, of -- so they can continue -- I don't
10 imagine anybody is -- well, I shouldn't say that. Is
11 somebody at the top range?

12 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes,
13 there is.

14 COMMITTEE MEMBER TAYLOR: Okay.

15 CHAIRPERSON BILBREY: I believe it's attachment
16 2.

17 COMMITTEE MEMBER TAYLOR: I looked at that and I
18 was like I wasn't sure.

19 Okay. So then --

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So the
21 policy once you're at -- you can only get four percent
22 once you're in the fourth quartile. And once you hit the
23 top, you can't even get that four percent, even if you're
24 outstanding --

25 COMMITTEE MEMBER TAYLOR: Okay. So you top

1 out --

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: --
3 unless you change. Yes.

4 COMMITTEE MEMBER TAYLOR: -- basically like any
5 other State employee who tops out in the range. That
6 might be a problem. So that might be something we should
7 revisit.

8 CHAIRPERSON BILBREY: Seeing no one else to
9 speak. This is an action item. What is the pleasure of
10 the Committee?

11 VICE CHAIRPERSON COSTIGAN: I'll move staff
12 recommendation.

13 COMMITTEE MEMBER TAYLOR: Second.

14 CHAIRPERSON BILBREY: Which one?

15 VICE CHAIRPERSON COSTIGAN: I'll move both items,
16 I'm sorry.

17 Oh, your -- 1, 2, or 3. I'm sorry.

18 I'm looking at the wrong none.

19 CHAIRPERSON BILBREY: So which one are -- which
20 option are you looking for or moving? Which one are we
21 moving, option 1, 2, or the 3rd one being nothing?

22 COMMITTEE MEMBER TAYLOR: I think we've -- hold
23 on.

24 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Can
25 I --

1 COMMITTEE MEMBER TAYLOR: Three was nothing,
2 right?

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Right.

4 CHAIRPERSON BILBREY: Yeah, 3 would be nothing.

5 COMMITTEE MEMBER TAYLOR: I think option one
6 would be it.

7 VICE CHAIRPERSON COSTIGAN: I think Option 1,
8 sorry.

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Can I
10 comment on -- just on option 2, I just want to make sure
11 that I was clear. And I might not have been, but option
12 2 -- although option 1 would definitely take care of
13 anybody that's already at the top, option 2 there will be
14 people that will reach the top before a year, so they
15 would be limited and not be able to get their full four
16 percent either, which is why we were suggesting option 2.

17 I'm just providing context. And also Ted and
18 Wylie are here and Marcie, if you guys want some
19 additional context.

20 CHAIRPERSON BILBREY: Okay. So let me finish
21 with the motion or -- well, Ms. Taylor has moved -- are
22 you -- who's moving?

23 COMMITTEE MEMBER TAYLOR: What?

24 CHAIRPERSON BILBREY: Moving. Who's move?

25 You started. You threw it to her.

1 VICE CHAIRPERSON COSTIGAN: Well, I was going --

2 COMMITTEE MEMBER TAYLOR: I was going to ask if
3 we could hear from --

4 VICE CHAIRPERSON COSTIGAN: Yeah, can we ask

5 CHAIRPERSON BILBREY: So before the -- okay. So
6 before we finish a motion --

7 VICE CHAIRPERSON COSTIGAN: I'll withdraw the
8 motion for staff recommendation.

9 CHAIRPERSON BILBREY: Okay. There we go. There
10 we go.

11 VICE CHAIRPERSON COSTIGAN: I would like to hear
12 from staff.

13 CHAIRPERSON BILBREY: All right. They would like
14 to hear from Mr. Eliopoulos.

15 VICE CHAIRPERSON COSTIGAN: Actually, could you
16 turn on my microphone, please.

17 CHAIRPERSON BILBREY: Oh, sorry.

18 VICE CHAIRPERSON COSTIGAN: All right. So first
19 of all, Ms. Campbell, what is the HR Department's
20 recommendation?

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Option
22 2, at a minimum would be our recommendation.

23 VICE CHAIRPERSON COSTIGAN: Okay. Thank you.

24 And yes, Mr. Chair, I would like to hear from
25 both the CEO and CIO.

1 CHAIRPERSON BILBREY: Okay. Let's give Mr.
2 Eliopoulos --

3 VICE CHAIRPERSON COSTIGAN: And your
4 recommendation first.

5 CHAIRPERSON BILBREY: -- first option, since he
6 didn't have to say anything.

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: Good
8 afternoon, Mr. Chair, members of the Committee. Ted
9 Eliopoulos, Chief Investment Officer.

10 Thank you for asking for commentary. I think in
11 terms of the options in front of you, the option 2 would
12 allow us to reward some of the 13 of our investment
13 directors that will be in that fourth quartile range, so
14 that would be our preference just to speak directly.

15 I think the other topic that was raised for
16 future consideration is one that the Committee has
17 wrestled with in years past which is targeting the overall
18 compensation level for the Investment Office at the bottom
19 quartile of this peer range.

20 And the peer range is, I think, very
21 conservatively constructed in the sense that it only
22 includes peer U.S. public pension funds and mid-range
23 asset managers. So it doesn't include any -- it doesn't
24 include the Goldman Sachs and Apollos of the world. It's
25 constructed to be roughly comparable the size of CalPERS

1 and the direct peers that we recruit from.

2 And to have the targeted compensation at bottom
3 quartile is one I think the Committee should continue to
4 keep its eye on, because to expect over long periods of
5 time, you know, top quartile or medium quartile
6 performance and target bottom quartile compensation will
7 create, I think over time, issues from a recruitment and
8 retention standpoint.

9 So I think you're wise to continue to have these
10 conversations and to think through your goal for both the
11 peer set and the targeted compensation level. And in that
12 regard, I do think CalSTRS has actually come up with a
13 fairly innovative approach. They have selected the 50th
14 percentile. But in so doing, they've put a cap on any of
15 their investment professionals, is how I understand it
16 from Ms. Campbell, from moving beyond the 25th percentile,
17 unless the CEO and the CIO approve it on a selective
18 one-by-one basis.

19 And that might be something for the Committee to
20 think in the future, because I think that's been a
21 positive for their system.

22 CHAIRPERSON BILBREY: Thank you.

23 Ms. Frost.

24 CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr.
25 Chair, members of the Committee.

1 I would concur with Ted's comments, I think, on
2 the range itself supporting option 2, expanding that top
3 of the salary range out five percent. It gives you the
4 most flexibility and us more flexibility in determining
5 how to place people who have outstanding performance. If
6 we have individuals who have outstanding performance in
7 the range would prohibit us from awarding appropriately,
8 then that could be problematic for morale, recruitment,
9 retention.

10 Thank you.

11 CHAIRPERSON BILBREY: Thank you.

12 Mr. Gillihan.

13 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

14 So the difference between option 1 and 1 is one
15 percent, right?

16 CHIEF EXECUTIVE OFFICER FROST: Correct.

17 COMMITTEE MEMBER GILLIHAN: So --

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And
19 more people.

20 CHAIRPERSON BILBREY: And option 1 covers more
21 people.

22 COMMITTEE MEMBER GILLIHAN: Okay. So I know
23 these a very talented staff that do great work for us, but
24 they also are some of our highest paid civil service
25 employees in the State of California. And so when we

1 extend salary increases, we do it on a percentage basis.
2 And, you know, a four percent increase to these folks, in
3 terms of total dollars is an order of magnitude more than
4 it is to the members miss taylor represents when -- if we
5 were to extend a four percent pay raise to those folks.

6 So I ask this Committee to keep that in mind.
7 These are State employees. We value the work they do.
8 They do a fantastic job, and they're certainly worth the
9 money that they make, but out of equity for the broader
10 State workforce, who are also California civil service
11 employees that do a great job for the State of California
12 every day, I would respectfully ask the Board to consider
13 option 1, and I would move option 1.

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Could I
15 just point out one more thing between option 1 and 2?

16 CHAIRPERSON BILBREY: Before you go on, there's a
17 motion a the floor.

18 Is there a second?

19 COMMITTEE MEMBER TAYLOR: Second.

20 CHAIRPERSON BILBREY: Second for option 1?

21 Okay.

22 COMMITTEE MEMBER TAYLOR: But I also have
23 comments.

24 CHAIRPERSON BILBREY: Okay. Ms. -- go ahead Ms.
25 Campbell.

1 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Just a
2 follow-up on Mr. Costigan's comment. Option 1 includes
3 three classifications. Option 2 includes five. And out
4 of those, some of the lower classifications are included
5 in option 2. So again, just to make sure I'm providing
6 all the information for you to make the decision.

7 CHAIRPERSON BILBREY: All right. Ms. Taylor.

8 COMMITTEE MEMBER TAYLOR: So let me ask a
9 question, and I appreciate, Mr. Gillihan, what you said
10 about this. And it does make sense, which is why I
11 seconded this.

12 So my question to Ms. Campbell is how come the
13 options put in front of us can't include the same number
14 of people, and just be a percentage difference? Is there
15 a way we could reconstruct that?

16 I'm reading them. It doesn't look like they're
17 significantly different other than the percentage point.
18 And the fact that some cover more employees -- the one
19 covers more employees.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.
21 So the difference really is that option 1, they're already
22 at the max. Option 2 there's others that are going to
23 approach the max before the year is up. And that -- but
24 can you combine them? Absolutely. You could just -- but
25 option 2 actually does combine them. I guess that's my

1 answer.

2 COMMITTEE MEMBER TAYLOR: So option 2 does
3 combine them, but it also increases it an extra percentage
4 point?

5 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That's
6 correct, because based on the policy the folks that in the
7 fourth quartile can only get up to four percent, but that
8 doesn't -- that doesn't restrict the other folks that
9 aren't there yet. And it just puts the range at an even
10 number of five percent.

11 COMMITTEE MEMBER TAYLOR: So something -- so what
12 you're saying is you're treating this as if it's a
13 classification increase at five percent?

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah, I
15 think you could look at it that way.

16 COMMITTEE MEMBER TAYLOR: Like a State employee
17 classification increase?

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah,
19 for the salary range.

20 COMMITTEE MEMBER TAYLOR: Okay.

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

22 CHAIRPERSON BILBREY: Are you done, Ms. Taylor?

23 COMMITTEE MEMBER TAYLOR: You want to -- yeah,
24 I'm done. Go ahead.

25 CHAIRPERSON BILBREY: Ms. Glasser-Hedrick.

1 ACTING COMMITTEE MEMBER GLASSER-HEDRICK: I had
2 the same question as Ms. Taylor regarding the difference
3 between the two options. I mean, it seems to me make
4 sense. In order to retain good employees, it's difficult
5 or challenging to arrive at a situation where they're
6 performing well, and you don't have the ability to provide
7 extra incentives.

8 But I guess my question was the difference
9 between the four and the five percent. And I think you --
10 I think you addressed that in your comments to Ms. Taylor.
11 Is it potentially possible to include everybody that would
12 be stepped out by the end of the year, but also move
13 forward with the four percent, or is that not an option?

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah,
15 that's actually -- the reason that the two are separated
16 it's really what the appetite of the Board is. If we
17 wanted to deal strictly with people that are at the max
18 already, and if there is anything to do, now is the time
19 to do it, because this would become effective July 1st
20 2017.

21 The team members that are in option 2 will get
22 their eventually before the year is up, so we didn't want
23 to leave them out. And then, as we've talked about in
24 quite some length, not just this year, but at least the
25 last year that I was here and the years prior, is until we

1 have an appetite to do something about the ranges, this is
2 an opportunity to do something in the short-term, if the
3 Board so chooses to.

4 CHAIRPERSON BILBREY: Mr. Gillihan.

5 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

6 I just want to note with respect to this notion
7 that everything is a clean five percent, when we do
8 general salary increases, we adjust the salary
9 schedules -- the salary ranges, and so the math never
10 works out. So you would get five percent in a typical MSA
11 adjustment, until you got to whatever the gap between
12 where you were and the top of the range was. And if that
13 was four and a half, it's four and a half, if it's five,
14 it's five, but it's likely something less than 5.

15 Mr. Chair, I'd like to withdraw my motion, and
16 make an alternative motion that we take the recommendation
17 number 2, so this applies to all the ranges in the
18 investment -- the classifications under discussion, but at
19 a four percent increase, not a five percent.

20 CHAIRPERSON BILBREY: Is that amenable to the Ms.
21 Taylor?

22 COMMITTEE MEMBER TAYLOR: That's amenable to the
23 second, yes.

24 CHAIRPERSON BILBREY: All right. So the original
25 motion is withdrawn. The new motion is option 2 with four

1 percent, instead of five.

2 And Mr. Costigan.

3 VICE CHAIRPERSON COSTIGAN: All right. So Mr.
4 Gillihan has thrown me for a loop. I think I'm inclined
5 to vote against this motion on the four percent and rather
6 make it five. And here's why, as the Chair of Finance and
7 Administration Committee, last month we talked about \$199
8 million in savings that the Investment Office did for us,
9 and continue to have savings. I think that more than
10 encompasses a five percent increase in pay.

11 And, I mean, in the -- unless there's a
12 disagreement, I mean, I'm looking to the two of you all
13 who have to bring these folks in. I mean, you're going to
14 continue to receive direction from both the Committee and
15 the Board to continue to reduce external manager cost. So
16 what is the difference between four and five percent? Do
17 we have a budget number?

18 COMMITTEE MEMBER TAYLOR: One percent.

19 VICE CHAIRPERSON COSTIGAN: I know it's one
20 percent. I'm sorry.

21 (Laughter.)

22 VICE CHAIRPERSON COSTIGAN: Thank you. Thank
23 you, Ms. Taylor. I can do my math today.

24 (Laughter.)

25 VICE CHAIRPERSON COSTIGAN: One percent. Is

1 it -- so is it --

2 CHIEF EXECUTIVE OFFICER FROST: And I could just
3 add one comment. So expanding the range by five percent
4 does not mean that every person in that range --

5 VICE CHAIRPERSON COSTIGAN: No, I understand.

6 CHIEF EXECUTIVE OFFICER FROST: -- is going to
7 get the five percent.

8 VICE CHAIRPERSON COSTIGAN: I get that.

9 CHIEF EXECUTIVE OFFICER FROST: It's giving us
10 the flexibility --

11 VICE CHAIRPERSON COSTIGAN: It's an MSA.

12 CHIEF EXECUTIVE OFFICER FROST: -- to reward to
13 the full extent of the incentive plans --

14 VICE CHAIRPERSON COSTIGAN: Correct.

15 CHIEF EXECUTIVE OFFICER FROST: -- that have
16 already been approved, but it doesn't mean that everyone
17 is going to get a five percent. We would use the
18 incentive comp metrics --

19 VICE CHAIRPERSON COSTIGAN: And that's why we
20 trust you all to make that decision.

21 CHIEF EXECUTIVE OFFICER FROST: -- to determine
22 where they fit in that range.

23 VICE CHAIRPERSON COSTIGAN: And that's why to
24 give you the authority. So if we were to give everybody,
25 what's the dollar amount we're looking at?

1 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah,
2 about 109,500.

3 VICE CHAIRPERSON COSTIGAN: Okay. So the
4 difference between four and five percent is \$110,000,
5 which is, let me see if I can do my math, 0.001 of the
6 savings of 199 million or is it 0.00001?

7 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So I
8 don't have the answer to the way that you're asking the
9 question. But what would be different here is just the
10 four incumbents at the -- that would get the four percent,
11 they would be --

12 VICE CHAIRPERSON COSTIGAN: Right. And Ms.
13 Campbell, I -- I'm just being a little bit facetious --

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.

15 VICE CHAIRPERSON COSTIGAN: -- because what I'm
16 pointing out is we saved nearly \$200 million and we're
17 talking about \$110,000.

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank
19 you.

20 VICE CHAIRPERSON COSTIGAN: I would be more than
21 happy to support the increase. I normally love being with
22 CalHR, but I will be voting against this motion. I will
23 make a substitute motion after you've called the others,
24 Mr. Chair.

25 CHAIRPERSON BILBREY: Mr. Slaton.

1 BOARD MEMBER SLATON: Yeah, I just want to echo
2 what Mr. Costigan says. And, you know, the out-of-pocket
3 cost to CalPERS today is not going to be -- you know, I
4 mean it is a hundred -- potentially up \$100,000 or so.

5 But it's really about the signals and message
6 we're sending in the ability to recruit. And I think that
7 our objective -- and I forgot what the number is on
8 outside fees that we pay for managers. But what's that
9 number? Can you remind me, Ted, what that number is
10 ballpark?

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: Eight
12 hundred million.

13 BOARD MEMBER SLATON: \$800 million. So I would
14 ask the Committee to consider doing the option 2 with the
15 five percent, whatever procedurally you need to do to do
16 that, because we're talking about big numbers. And this
17 is really about recruitment and retention, not the fact of
18 whether these people are going to leave or not leave, if
19 it's four or five percent.

20 But you're definitely sending a message. We know
21 we're trying to accomplish something really big here in
22 terms of the overall program. So I just encourage you to
23 adjust to get to five.

24 CHAIRPERSON BILBREY: Ms. Taylor.

25 COMMITTEE MEMBER TAYLOR: So I was unaware that

1 this was not like a top of the range automatic four or
2 five percent. So I'm not sure that I agree with it now,
3 Richard, but I already seconded it. So I just wanted to
4 make that clear.

5 The other part of this I think that, Mr. Chair,
6 we might want to look at is how we do address the
7 top-of-the-range issue that we have run into here in the
8 future, so...

9 CHAIRPERSON BILBREY: Mr. Jones.

10 VICE PRESIDENT JONES: Just to let you know that
11 when this item comes to the full Board, I will be
12 supporting option 2.

13 CHAIRPERSON BILBREY: Okay. Mr. Costigan.

14 VICE CHAIRPERSON COSTIGAN: So I'm going to make
15 a substitute motion of option 2 with up to the five
16 percent for all of the classifications inside the
17 Investment Office.

18 CHAIRPERSON BILBREY: Is there a second?

19 COMMITTEE MEMBER LIND: Second.

20 CHAIRPERSON BILBREY: Mr. Lind seconded.

21 So a substitute motion on the floor is option 2,
22 right?

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

24 CHAIRPERSON BILBREY: Yeah, we're back to option
25 2.

1 VICE CHAIRPERSON COSTIGAN: Oh, wait a second.

2 CHIEF EXECUTIVE OFFICER FROST: I just wanted to
3 clarify your motion. Did you say all the investment
4 classes or all classifications in the --

5 VICE CHAIRPERSON COSTIGAN: All the investment
6 classes.

7 CHIEF EXECUTIVE OFFICER FROST: Yeah. So we do
8 have non-investment --

9 VICE CHAIRPERSON COSTIGAN: Oh, I'm sorry.

10 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: As
11 proposed.

12 VICE CHAIRPERSON COSTIGAN: It's option 2 as
13 proposed up to five percent.

14 CHIEF EXECUTIVE OFFICER FROST: Thank you.

15 CHAIRPERSON BILBREY: Okay. So just covering
16 what is in option 2.

17 VICE CHAIRPERSON COSTIGAN: Yes, option 2 up to
18 the five percent. Back to the original option.

19 CHAIRPERSON BILBREY: Any further discussion?

20 Seeing none.

21 All those in favor say?

22 (Ayes.)

23 CHAIRPERSON BILBREY: Opposed?

24 (Noes.)

25 VICE CHAIRPERSON COSTIGAN: Sounds like a 3-2

1 CHAIRPERSON BILBREY: Can we do a roll -- or a
2 electronic vote?

3 COMMITTEE MEMBER TAYLOR: I'm a little confused.

4 CHAIRPERSON BILBREY: Ms. Taylor has -- oh, you
5 went away, Ms. Taylor.

6 Sorry, I can't pull you back. Oh, we're voting.

7 MS. HOPPER: I can cancel the vote, if you want.

8 CHAIRPERSON BILBREY: We are voting.

9 COMMITTEE MEMBER TAYLOR: I need to ask a
10 question, because I'm not clear. Can you wait? Oh,
11 everybody is voting?

12 CHAIRPERSON BILBREY: Yeah, it already went into
13 the voting session.

14 COMMITTEE MEMBER TAYLOR: I don't want to vote
15 until I ask the question.

16 CHAIRPERSON BILBREY: Go ahead and ask your
17 question.

18 COMMITTEE MEMBER TAYLOR: So all I want to know
19 is --

20 VICE CHAIRPERSON COSTIGAN: You've got to turn
21 her microphone one.

22 CHAIRPERSON BILBREY: I can't get it up.

23 VICE CHAIRPERSON COSTIGAN: Mr. Chair or Mr --
24 can we just cancel the vote?

25 CHAIRPERSON BILBREY: Or can we --

1 VICE CHAIRPERSON COSTIGAN: She turned on the
2 microphones.

3 CHAIRPERSON BILBREY: She turned it on. We
4 turned it on.

5 COMMITTEE MEMBER TAYLOR: So at first, I thought
6 we were -- so option 1 is the classifications that have
7 one or more incumbents at the maximum salary range raise
8 the maximum of the corresponding salary ranges by four
9 percent. Option 2 is for classifications which have one
10 or more incumbents in the fourth quartile of the salary
11 range.

12 Now, I thought Richard Costigan was stating that
13 he wanted both those combined at the five percent. Is
14 that incorrect? So basically put, the incumbents that are
15 at the max plus the ones that are entering the max at five
16 percent, is that what I understand to be correct?

17 VICE CHAIRPERSON COSTIGAN: That would be --

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah,
19 so it's back to the range itself will go to five percent,
20 but the policy states maximum that you can get when you're
21 in the fourth quartile is four percent.

22 COMMITTEE MEMBER TAYLOR: The policy states?

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: The
24 policy states, as it is written today.

25 COMMITTEE MEMBER TAYLOR: So we're changing the

1 policy.

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: What
3 you'd be changing is the range in the policy. But the
4 policy would remain the same, because you can still only
5 get up to four percent in the fourth quartile in the
6 appraisal process. The salary range is the salary range.
7 But when you go through the appraisal process, you would
8 have to get an outstanding in order to get to four
9 percent. Does that make sense?

10 COMMITTEE MEMBER TAYLOR: Okay. So they can't
11 get five percent anyway, is that what you're saying?

12 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.
13 Again in attachment 2 for those in the fourth quartile,
14 they could not get the five percent. It just bumps the
15 range to five percent.

16 CHAIRPERSON BILBREY: Ms. Frost.

17 CHIEF EXECUTIVE OFFICER FROST: So that is true
18 on the policy. But correct me if I'm wrong, Tina, the
19 General Counsel and the Chief Operating Investment Officer
20 could be eligible to up to five percent?

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: No,
22 four.

23 CHIEF EXECUTIVE OFFICER FROST: No. Okay.

24 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Four
25 percent.

1 CHIEF EXECUTIVE OFFICER FROST: All right.

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It just
3 bumps the range up a little bit more. And so --

4 COMMITTEE MEMBER TAYLOR: It's the top of the
5 range, right?

6 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So
7 let's -- so let's go as if we're going into the next
8 following year, and the Board chooses to do nothing, there
9 would be another one percent room, I guess, if you want to
10 look at it that way, if we do no other action after this.
11 Because what we've been doing the last couple years is
12 just giving what the maximum, which is four percent,
13 allows when you're in the fourth quartile.

14 COMMITTEE MEMBER TAYLOR: Okay. So I think we
15 have the wrong motion on the floor then, if I'm correct
16 about this. So what you're saying is that the fourth
17 quartile folks can only go up four percent. The -- where
18 am I? The classifications that are at the max can go up
19 five percent.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It's
21 the reverse of that, if I'm understanding your question
22 correctly.

23 COMMITTEE MEMBER TAYLOR: Oh, no, you're right.
24 You're right. So like the CIO, the --

25 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So

1 somebody that wasn't quite at the max yet, there would be
2 room to go all the way up to the five percent once
3 you're -- this is going to be a little bit confusing, but
4 I'm going to try to draw it out. Once you're in the
5 fourth quartile and you meet outstanding, four percent is
6 the highest you can get. If we increase the salary range
7 to the five percent -- and maybe I would like at it as the
8 MSAs --

9 COMMITTEE MEMBER TAYLOR: I see.

10 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: --
11 that -- the way that we look at it in other State
12 positions, is the five percent, although in an MSA is
13 automatic, we could give you less, depending on your
14 performance as the State of California, or we could give
15 you nothing. But in the way the policy is written, the
16 folks that sit in the fourth quartile --

17 COMMITTEE MEMBER TAYLOR: So everyone one can
18 only get four percent?

19 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That
20 are in the fourth quartile

21 COMMITTEE MEMBER TAYLOR: At and max, right?

22 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And
23 outstanding, correct.

24 COMMITTEE MEMBER TAYLOR: Okay. Okay. So
25 everyone --

1 COMMITTEE MEMBER GILLIHAN: If you're at max and
2 you're in the fourth quartile, right, I mean by
3 definition.

4 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.
5 It could have been probably written a little bit better,
6 but what we're trying to do --

7 COMMITTEE MEMBER TAYLOR: Well, yeah, because one
8 covers more employees, right?

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: But one
10 is broader. Option 2 is definitely broader.

11 COMMITTEE MEMBER TAYLOR: So and what was the
12 point of putting five --

13 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Two.
14 Did I say 1? Two is broader.

15 COMMITTEE MEMBER TAYLOR: Two is broader, so what
16 was the point of putting the five percent in if it can --
17 if you can only get four percent?

18 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Because
19 it's the salary range. And like I said, if we go next
20 year and we do nothing, there's another one percent for
21 people that are in the fourth quartile.

22 COMMITTEE MEMBER TAYLOR: Okay. So I think we're
23 back to the option 2.

24 CHAIRPERSON BILBREY: Well, there's a motion on
25 the floor, so you need to vote on that one at this point.

1 COMMITTEE MEMBER TAYLOR: Okay.

2 CHAIRPERSON BILBREY: If you don't want --

3 VICE CHAIRPERSON COSTIGAN: I'll withdraw my
4 motion.

5 CHAIRPERSON BILBREY: Okay. Now, we'll withdraw
6 the motion.

7 So can we have a new motion then?

8 Oh, I need to have my -- this whole thing went
9 off, so I can't call on anybody. I have no idea what...

10 VICE CHAIRPERSON COSTIGAN: So Mr. Bilbrey --

11 CHAIRPERSON BILBREY: Hang on.

12 VICE CHAIRPERSON COSTIGAN: -- we've gone back
13 and forth on this. I would like either Ms. Campbell or
14 Ms. Frost to state what they believe the discussion -- the
15 dialogue has occurred. So Ms. Campbell do you want to try
16 just so we can make sure the record is clear.

17 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.
18 So option 2 --

19 VICE CHAIRPERSON COSTIGAN: Option 2.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: --
21 would allow for the salary range max to be raised by five
22 percent. Option 2 would also allow for anyone that's at
23 the max in the fourth quartile to get up to four percent,
24 which is the maximum you can get as the policy reads
25 today. And option 2 would allow 14, potentially 14 -- up

1 to 14, if we do adopt the new salary range to take
2 advantage of an increase. If we do stick with option 1,
3 we would only be able to provide that opportunity for
4 four.

5 VICE CHAIRPERSON COSTIGAN: And I just want to
6 make sure, option 2 as written says 13 -- you're saying it
7 would actually apply to 14.

8 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:

9 Fourteen. That's a typo. It is 14. Thank you
10 for clarifying.

11 VICE CHAIRPERSON COSTIGAN: I just want to make
12 sure. Any -- Mr. Bilbrey, I just want to make sure. Ms.
13 Frost was there anything else?

14 CHIEF EXECUTIVE OFFICER FROST: I think there's a
15 third option. I think you could adopt option 2 at four
16 percent also, and really get to the --

17 VICE CHAIRPERSON COSTIGAN: I guess I agree with
18 CalHR right now.

19 CHIEF EXECUTIVE OFFICER COSTIGAN: -- discussion
20 and dialogue that's happening amongst the Committee
21 members.

22 CHAIRPERSON BILBREY: It took a minute for you to
23 get there, back now you're back with CalHR.

24 So is there a motion on the floor?

25 COMMITTEE MEMBER GILLIHAN: So my motion still is

1 out there right, because we didn't vote on it?

2 VICE CHAIRPERSON COSTIGAN: Yeah, we're back to
3 the orig -- we're back to Mr. Gillihan's --

4 CHAIRPERSON BILBREY: Okay. So we're back to Mr.
5 Gillihan's motion which could you repeat whether it's
6 option --

7 COMMITTEE MEMBER GILLIHAN: Yeah. My motion was
8 option 2, but modified to four percent instead of five
9 percent.

10 CHAIRPERSON BILBREY: Got it.

11 And Mr. Jones.

12 VICE PRESIDENT JONES: Yeah. Thank you. I'd
13 just like to remind the Committee members of what we just
14 witnessed a couple days ago. Our Chief Investment Officer
15 talked about the wrath that the Investment staff takes,
16 whether it's through media or individuals. And
17 recognizing the demoralization that that has on staff, and
18 here we are picking about one percent.

19 It's -- to me, it's not going in the right
20 direction if we're talking about trying to improve the
21 morale of our staff. It's just the wrong debate from my
22 perspective.

23 CHAIRPERSON BILBREY: Ms. Taylor.

24 COMMITTEE MEMBER TAYLOR: So I just want to -- I
25 just clarified this myself, Henry, because I got very

1 confused. So what I understand is policy, and we're not
2 changing policy here, policy states only a four percent
3 raise is allowed at the highest range. So say they get an
4 outstanding, they only get four percent. That five
5 percent was to cover if next year we didn't do anything,
6 so they'd get another percentage point next year.

7 So, well, I assume we're going to do something
8 next year.

9 CHAIRPERSON BILBREY: Mr. Eliopoulos, did you
10 want to weigh-in at all?

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: Definitely
12 not wanting to pre-experience any pain for next year for
13 sure, but I do think with all the sentiments being
14 expressed, appreciate it. The fact that at four percent
15 all -- is the maximum that we can give this year, if it
16 brings a unanimity or, you know, more consensus amongst
17 the Committee and the Board, I think it's a -- it's a good
18 compromise from some of the discussion that I've heard
19 today. It will not harm anyone, and then it does mean
20 though that you'll have one percent less flexibility for
21 next year.

22 But I think this -- I think we'll be back here
23 next year with this discussion, and we can experience that
24 flexibility there. But if it brings more, I think
25 unanimity, or consensus, or reflects, you know, of the

1 opinions than making -- making this available to more of
2 the Investment Managers and Directors in the Investment
3 Office would be my priority over the last one percent,
4 which we can discuss next time.

5 And I do want to apologize in terms of the way
6 it's presented. It wasn't very -- it wasn't crystal clear
7 on what these meant. But the Committee has done a good
8 job of sussing it out and unwinding it on the fly, in this
9 hearing.

10 CHAIRPERSON BILBREY: Mr. Slaton.

11 BOARD MEMBER SLATON: Thank you, Mr. Chair.

12 So next year means July 1st, 2018, is that
13 correct? Starting at that point. Okay. So we have over
14 a year to address this problem. And I encourage the
15 Committee and the Committee Chair to put this on the
16 agenda early, have a broader discussion, where we're not
17 under a calendar crunch, and we get a chance to revisit
18 all aspects of this -- of compensation. And in light of
19 what we're, from an overall standpoint, trying to
20 accomplish. So we can have a broader conversation take
21 our time, and do some good deliberations. So I think this
22 solves the problem today, and then let's -- let's get to
23 it early, Committee.

24 CHAIRPERSON BILBREY: Thank you Mr. Costigan --
25 or Mr. Slaton. You took the words out of my mouth.

1 Although I was trying to get the motion passed
2 first, and then give that direction, but it will be the
3 direction for us to explore that in the coming months.

4 With that, the motion is on the floor.

5 All those in favor say aye?

6 (Ayes.)

7 CHAIRPERSON BILBREY: Opposed?

8 Motion carries.

9 We got there. I do want to -- thank you, Mr.
10 Costigan.

11 I do want to though in light of motion just --
12 and all the discussion to say that this Board values our
13 staff in all that they do throughout the whole enterprise.
14 And they can -- I assume know that the staff understands
15 what constraints we're under as a Board and what we have
16 to go through in determining. While we would love to
17 compensate at -- especially in some of the cases we're
18 talking about right now -- at a higher level. We are a
19 public institution, a public entity, and it makes it very
20 difficult for us, so -- but I do want the staff to know,
21 and I think I speak on behalf of the Board, when I say
22 thank you for all you do, because the work is tremendous
23 and we wouldn't be here without you.

24 With that, I also want to take a moment of
25 personal privilege. And while I don't want to say this,

1 because I want her to stay. At this time, I'd like to
2 recognize thank Heather Mercer for her contributions over
3 the last 13 years to the Performance, Compensation &
4 Talent Management Committee.

5 Heather has been instrumental to the success of
6 the compensation programs. And it's been a pleasure to
7 work with her. Heather, congratulations on your promotion
8 to the Legal Office. We wish you the best as you continue
9 your journey in CalPERS.

10 Thank you.

11 Summary --

12 (Applause.)

13 CHAIRPERSON BILBREY: Summary of direction.

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.
15 So I have a few items. That Mr. Costigan asked if we
16 could add the University of California as a competitor.
17 We missed that last time. And then also how to address
18 top-of-the-range issue. And also to put on the agenda
19 early the discussion on all aspects of compensation, so we
20 done find ourselves where we are today.

21 Was there other direction that I missed?

22 CHAIRPERSON BILBREY: Very well. I think that
23 covers it.

24 Very well.

25 Next item, public comment. I have no requests.

1 Is there anyone from the public who wishes to speak at
2 this time?

3 Seeing none.

4 This meeting is adjourned.

5 (Thereupon the California Public Employees'
6 Retirement System, Board of Administration,
7 Performance, Compensation, & Talent Management
8 Committee meeting adjourned at 4:56 p.m.)
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C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 27th day of June, 2017.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063